



INDIANA STATE TEACHERS' RETIREMENT FUND

THE REPORT OF THE
ANNUAL ACTUARIAL VALUATION

AS OF
JUNE 30, 2005

GRS

Gabriel Roeder Smith & Company



January 24, 2006

The Board of Trustees
Indiana State Teachers' Retirement Fund
Indianapolis, Indiana

Dear Board Members:

Submitted in this report are the results of the June 30, 2005 actuarial valuation of the Indiana State Teachers' Retirement Fund.

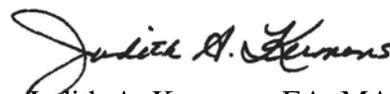
The member census data and the asset information for this valuation were furnished by your Executive Director and Staff. Their efforts and cooperation in furnishing these materials are acknowledged with appreciation. We did not audit the information provided, but we did review it for reasonableness and compared it with the prior year's submission for consistency.

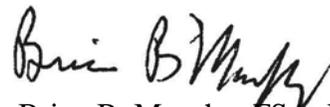
The actuarial assumptions were adopted by the Board pursuant to the Experience Study dated August 14, 2003 and are summarized in Section G.

Your attention is directed to the Summary of Valuation Results on pages 1 through 2 and the Comments on pages A-1 and A-2.

The valuation was completed under the supervision of a Member of the American Academy of Actuaries with significant experience in valuing public employee retirement systems, and was prepared using generally accepted actuarial principles and in accordance with standards of practice prescribed by the Actuarial Standards Board. To the best of our knowledge, this report is complete and accurate and the actuarial methods and assumptions produce results which are reasonable.

Respectfully submitted,


Judith A. Kermans, EA, MAAA


Brian B. Murphy, FSA, EA, MAAA

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SUMMARY OF RESULTS



SUMMARY OF KEY VALUATION RESULTS
JUNE 30, 2005

	PRE-1996 FUND	1996 FUND	ISTRF TOTAL	2004 TOTAL
Fund Members				
Retired Members and Beneficiaries				
Number	37,421	1,091	38,512	37,068
Annual Annuity and Pension Payments	\$ 586,597,224	\$ 20,583,773	\$ 607,180,997	\$ 561,440,374
Inactive Members				
Number - Vested	4,361	882	5,243	5,260
Number - Non Vested	10,142	21,917	32,059	31,472
Active Members				
Number	39,097	34,826	73,923	73,510
Annual Payroll	\$ 2,305,725,567	\$ 1,428,603,546	\$ 3,734,329,113	\$ 3,651,653,125
Accrued Liabilities - Annuities and Pensions				
Retired Members and Beneficiaries	\$ 5,653,502,508	\$ 219,721,536	\$ 5,873,224,044	\$ 5,265,080,331
Inactive Members	354,358,791	80,603,183	434,961,974	420,742,670
Active Members	8,246,285,277	1,710,422,149	9,956,707,426	9,512,102,987
Total	<u>\$14,254,146,576</u>	<u>\$2,010,746,868</u>	<u>\$16,264,893,444</u>	<u>\$15,197,925,988</u>
Funding Value of Assets	\$ 5,796,723,667	\$1,268,575,809	\$ 7,065,299,476	\$ 6,804,394,627
Market Value of Assets	\$ 5,890,596,581	\$1,289,119,294	\$ 7,179,715,875	\$ 6,754,291,553
Unfunded Actuarial Accrued Liability	\$ 8,457,422,909	\$742,171,059	\$ 9,199,593,968	\$ 8,393,531,361
Funded Ratios (Funding Value Basis)				
All Annuity and Pension Liabilities	40.7%	63.1%	43.4%	44.8%
Computed Employer Contribution Rate for Fiscal Year 2007*				
Normal Cost	6.18%	6.37%	6.25%	6.00%
Unfunded Actuarial Accrued Liability	17.76%	2.61%	11.96%	11.12%
Total	<u>23.94%</u>	<u>8.98%</u>	<u>18.21%</u>	<u>17.12%</u>

* For additional information on Contribution Rates see page A-3.

SECTION A



Valuation Results

COMMENTS

Contribution Rates

Page A-3 shows the computed contribution rates for the Pre-1996 Fund, the 1996 Fund and the combination of the two plans. It is this combined column that represents the level percent of payroll funding for the ISTRF. The computed contribution rate for the Pre-1996 Fund is shown for comparison purposes only, since this plan is funded on a pay-as-you-go basis. The computed contribution rate for the 1996 Fund is calculated as if it were a stand-alone plan.

Plan Provisions

The ad-hoc COLA effective January 1, 2006 pursuant to IC 5-10.2-5-39 has been taken into consideration for the purpose of calculating plan liabilities. There were no other changes in plan provisions since the June 30, 2004 actuarial valuation.

Data

Data for the valuation was provided by ISTRF from Indiana Pension Systems, Inc. We reviewed the data for general consistency with the prior year, but did not otherwise audit it.

We hope that, with the help of ISTRF staff, we will have the ability to track additional information that has traditionally been unavailable. The additional information includes:

- 1) July 1 retirees. We have assumed that these retirees are reported as active members for the June 30 valuation. For Teacher plans, July 1 retirees are a special case and should be treated as active;
- 2) Federally funded teachers. Currently, all federally funded teachers along with their member and employer contributions are reported in the Pre-1996 Fund. This results in an overstatement of Pre-1996 Fund liabilities and assets and an understatement of 1996 Fund liabilities and assets. If ISTRF staff could identify these individuals we could then assign them to the proper fund.
- 3) Unused Sick Leave lump sum paid upon retirement. We request that ISTRF collect information regarding amounts paid to each member so that we may refine our estimates.

Pension Stabilization Fund

The Pension Stabilization Fund (PSF) was established as a means to partially pre-fund liabilities in the Pre-1996 Fund. In the past few years, contributions to the PSF were suspended and PSF funds were used to pay pensions to Pre-1996 Fund members. More recent legislation reestablished the mechanism for lottery money to flow into the PSF (\$30 million per year) and limited the amount of annual withdrawals somewhat. However, we understand that the same legislation allows for a substantial transfer from the PSF to the 1996 Fund effective July 1, 2006. This transfer will reduce the unfunded accrued liability in the 1996 Fund and likely lower the computed employer contribution rate for that plan while increasing the unfunded liability (and future pay-as-you-go contributions) in the Pre-1996 Fund. Since the only substantial source of pre-funding for the ISTRF comes from the school districts, the transfer results in a reduction in ISTRF contributions in the long term, deferring more obligation to future generations (see recommendations).

COMMENTS

Change in Assumptions

ISTRF has granted retirees ad-hoc COLAs on a regular basis. In accordance with recent legislation, the ISTRF is required to account for future COLAs in reported liabilities. In the past, COLAs have averaged 1.5% per year. Whether or not COLAs will be paid at levels similar to the past depends on the financial situation of ISTRF each year. Beginning with the June 30, 2005 valuation, future ad-hoc COLAs are assumed to be 0.5% compounded annually. This assumption was designated by the Board after consulting with the actuary and the budget agency.

Investment Experience

Investment experience for the year ended June 30, 2005 was favorable. The market rate of return was 8.3% (see page A-5). Under the asset valuation method, market gains and losses are spread over a 4-year period. The Market Value of assets now exceeds the Funding Value by \$114.4 million. If the Market Value of assets had been the basis for the valuation, the funded ratio would be 44%.

Recommendations

Currently, the Retired Member Liabilities (annuity plus pension) are less than 100% of the Retired Member Reserve in the 1996 Fund. This is partly the result of changes in retired member data from year to year, and granting ad-hoc COLAs to the retired group. We recommend that a reserve transfer of \$73,520,194 be made from the Employer Reserve for Active Members to the Retired Member Reserve to restore the balance between assets and liabilities.

The financial condition of the ISTRF remains very weak with one of the lowest funded ratios in the nation. We continue to recommend a change in the funding policy to provide for contributions on behalf of all members (not just the 1996 Fund members) on an actuarially determined basis. The current pay-as-you-go method for Pre-1996 Fund members could result in the inability to pay pensions as the growing pension payroll puts additional cash demands on State finances.

COMPUTED EMPLOYER CONTRIBUTION RATES
JUNE 30, 2005

Contributions for	Employer Contributions As %s of Active Payroll For Fiscal Year Ending 2007		
	Pre-1996 Fund	1996 Fund	Totals
Normal Cost:			
Age and Service Pensions	5.91%	6.10%	5.98%
Disability and Death-in-Service	0.27%	0.27%	0.27%
Totals	6.18%	6.37%	6.25%
Unfunded Actuarial Accrued Liability (UAAL):			
Totals	17.76%	2.61%	11.96%
Computed Employer Contribution Rates	23.94%	8.98%	18.21%
\$ Contribution Based on Computed Rates	\$603,000,000	\$140,000,000	\$743,000,000
Fiscal Year 2007 Expected Employer Contribution Amount Based on Budgeted Rates	\$569,000,000	\$109,000,000	\$678,000,000

COMMENTS REGARDING CONTRIBUTION RATES

- The Expected Employer Contribution Amount shown for the Pre-1996 Fund is the amount of pension benefits expected to be paid in the 2007 fiscal year. This amount expressed as a percentage of valuation payroll is 24.67%.
- The Expected Employer Contribution Amount shown for the 1996 Plan is the current Board-adopted rate of 7% of payroll multiplied by the projected valuation payroll. This rate is less than the computed contribution rate of 8.98% of payroll shown above. If actual contributions made are consistently lower than the computed rate, the funding position of the 1996 Plan will continue to decline.
- The dollar contribution based on computed rates is a projection to the 2007 fiscal year at the 4.5% payroll growth rate assumption and is provided for comparison purposes.
- Unfunded actuarial accrued liabilities are being amortized over 29 future years.

COMMENTS REGARDING DEVELOPMENT OF ASSETS AND LIABILITIES

The Market Value of Assets as of June 30, 2005 was reported to be \$7,179,715,874. Using this figure, the *Funding Value of Assets* (based on the method first implemented for the June 30, 2002 valuation) is \$7,065,299,474 (see page A-5). The difference between the Market Value of Assets and the Funding Value of Assets is the *Funding Value Adjustment*. This amount is allocated between the Pre-1996 Fund and the 1996 Fund based on the respective Market Value of Assets for those Reserves.

The derivation of the Non-Investment Net Cash Flow used in the development of the Funding Value of Assets is shown below. Further details can be found on page F-4.

DEVELOPMENT OF NON-INVESTMENT NET CASH FLOW

Additions	
Member Contributions	\$ 117,897,343
Employer Contributions	484,778,888
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Total Contributions	\$ 602,676,231
Other Additions	4,828,183
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Total Additions	\$ 607,504,414
Deductions	
Benefit Payments	\$ 732,971,666
Other Deductions	2,981,634
	<hr/>
Total Deductions	\$ 735,953,300
Non-Investment Net Cash Flow	\$ (128,448,886)

DEVELOPMENT OF THE FUNDING VALUE OF ASSETS

Year Ended June 30:	2003	2004	2005	2006	2007	2008
A. Funding Value Beginning of Year	\$6,176,574,529	\$6,554,364,927	\$6,804,394,628			
B. Market Value End of Year	6,155,527,008	6,754,291,553	7,179,715,874			
C. Market Value Beginning of Year	5,722,753,180	6,155,527,008	6,754,291,553			
D. Non-Investment Net Cash Flow	94,378,676	(109,203,398)	(128,448,886)			
E. Investment Return						
E1. Market Total: B - C - D	338,395,152	707,967,943	553,873,207			
E2. Amount for Immediate Recognition (7.5%)	466,782,290	487,482,242	505,512,764			
E3. Amount for Phased-In Recognition: E1-E2	(128,387,138)	220,485,701	48,360,443			
F. Phased-In Recognition of Investment Gain/(loss)						
F1. Current Year: 0.25 x E3	\$ (32,096,785)	\$ 55,121,425	\$ 12,090,111			
F2. First Prior Year	(151,273,783)	(32,096,785)	55,121,425	\$ 12,090,111		
F3. Second Prior Year	-	(151,273,783)	(32,096,785)	55,121,425	\$ 12,090,111	
F4. Third Prior Year	-	-	(151,273,783)	(32,096,785)	55,121,425	\$ 12,090,113
F5. Total Recognized Investment Gain/(Loss)	\$ (183,370,568)	\$ (128,249,143)	\$ (116,159,032)	\$ 35,114,751	\$ 67,211,536	\$ 12,090,113
G. Total Return Amount Recognized this Year: E2 + F5	\$ 283,411,722	\$ 359,233,099	\$ 389,353,732			
H. Preliminary Funding Value End of Year: A + D + G	6,554,364,927	6,804,394,628	7,065,299,474			
H1. 120% of Market Value End of Year	7,386,632,410	8,105,149,864	8,615,659,049			
H2. 80% of Market Value End of Year	4,924,421,606	5,403,433,242	5,743,772,699			
H3. Funding Value End of Year: H, but not greater than H1, nor less than H2	\$6,554,364,927	\$ 6,804,394,628	\$ 7,065,299,474			
I. Difference between Market and Funding Value: B - H3	\$ (398,837,919)	\$ (50,103,075)	\$ 114,416,400	\$ 79,301,649	\$ 12,090,113	\$ -
J. Recognized Rate of Return	4.6%	5.5%	5.8%			
K. Market Value Rate of Return	5.9%	11.6%	8.3%			

The Funding Value of Assets recognizes assumed investment income (line E2) fully each year. Differences between actual and assumed investment income (line E3) are phased in over a closed 4-year period. During periods when investment performance exceeds the assumed rate, Funding Value of Assets will tend to be less than market value. During periods when investment performance is less than the assumed rate, Funding Value of Assets will tend to be greater than market value. The Funding Value of Assets is unbiased with respect to Market Value. At any time it may be either greater or less than Market Value. If assumed rates are exactly realized for 3 consecutive years, it will become equal to Market Value.

DERIVATION OF EXPERIENCE GAIN (LOSS) JUNE 30, 2005

Actual experience will never (except by coincidence) match exactly with assumed experience. It is hoped that gains and losses will cancel each other over a period of years, but sizable year-to-year fluctuations are common. Detail on the derivation of the experience gain (loss) is shown below.

(1) UAAL* at start of year		\$8,393,531,361
(2) Normal cost from last valuation		219,099,188
(3) Actual employer contributions		484,778,888
(4) Interest accrual: $[(1) + 1/2 ((2) - (3))] \times .075$		619,551,863
(5) Expected UAAL before changes: (1) + (2) - (3) + (4)		8,747,403,524
(6) Change from benefit improvements		0
(7) Change from revised actuarial methods and assumptions#		460,344,226
(8) Expected UAAL after changes: (5) + (6) + (7)		9,207,747,750
(9) Actual UAAL at end of year		9,199,593,968
(10) Gain (loss): (8) - (9)		8,153,782
(11) Gain (loss) as percent of actuarial accrued liabilities at start of year of \$15,197,925,988		0.1 %

* *Unfunded actuarial accrued liabilities.*

Increase in UAAL resulting from 0.5% compound COLA assumption.

	Experience Gain (Loss) As % of Beginning Accrued Liability
June 30	
2005	0.1 %

This schedule does not take into account any differences between actual contributions and recommended contributions based on level funding.

DEVELOPMENT OF ASSETS AND LIABILITIES
JUNE 30, 2005

(MARKET VALUE BASIS)

Reserve Allocation	Pre-1996 Fund	1996 Fund	Total
Member Reserves:			
Active and Inactive	\$2,925,366,625	\$535,179,132	\$3,460,545,757
Retired	669,751,284	21,056,995	690,808,279
Total Member Reserves	3,595,117,909	556,236,127	4,151,354,036
Employer Reserves:			
Active	0	605,371,216	605,371,216
Retired			
Pension Stabilization Fund	1,971,031,635	0	1,971,031,635
Other	324,447,037	127,511,951	451,958,988
Total	2,295,478,672	127,511,951	2,422,990,623
Total Employer Reserves	2,295,478,672	732,883,167	3,028,361,839
Total Reserves	\$5,890,596,581	\$1,289,119,294	\$7,179,715,875

ACTUARIAL ACCRUED LIABILITY: COMPUTED AND UNFUNDED

	Pre-1996 Fund	1996 Fund	Total
Retired Members and Beneficiaries:			
Computed accrued liability	\$ 5,653,502,508	\$ 219,721,536	\$ 5,873,224,044
Allocated assets (market value)	2,965,229,956	148,568,946	3,113,798,902
Funding Value adjustment	(47,254,089)	(2,367,604)	(49,621,693)
Unfunded Accrued Liability	2,735,526,641	73,520,194	2,809,046,835
Active and Inactive Members:			
Computed accrued liability	8,600,644,068	1,791,025,332	10,391,669,400
Allocated assets (market value)	2,925,366,625	1,140,550,348	4,065,916,973
Funding Value adjustment	(46,618,825)	(18,175,881)	(64,794,706)
Unfunded Accrued Liability	5,721,896,268	668,650,865	6,390,547,133
ISTRF Total:			
Computed accrued liability	14,254,146,576	2,010,746,868	16,264,893,444
Allocated assets (market value)	5,890,596,581	1,289,119,294	7,179,715,875
Funding Value adjustment	(93,872,914)	(20,543,485)	(114,416,399)
Unfunded Accrued Liability	\$ 8,457,422,909	\$ 742,171,059	\$ 9,199,593,968

PRE-1996 FUND BALANCE SHEET
SUMMARY STATEMENT OF FUND RESOURCES AND OBLIGATIONS
JUNE 30, 2005

PRESENT RESOURCES AND EXPECTED FUTURE RESOURCES

	<u>Annuities</u>	<u>Pensions</u>	<u>Total</u>
A. Funding value of system assets			
1. Net assets from Fund financial statements	\$3,595,117,909	\$ 2,295,478,672	\$ 5,890,596,581
2. Funding value adjustment	(57,292,023)	(36,580,891)	(93,872,914)
3. Funding value of assets	<u>3,537,825,886</u>	<u>2,258,897,781</u>	<u>5,796,723,667</u>
B. Actuarial present value of expected future employer contributions			
1. For normal costs	0	1,157,487,700	1,157,487,700
2. For unfunded actuarial accrued liability	48,179,944	8,409,242,965	8,457,422,909
3. Total	<u>48,179,944</u>	<u>9,566,730,665</u>	<u>9,614,910,609</u>
C. Present value of expected future member contributions*	565,329,678	0	565,329,678
D. Total Present and Future Resources	\$4,151,335,508	\$11,825,628,446	\$15,976,963,954

**ACTUARIAL PRESENT VALUE OF EXPECTED FUTURE
BENEFIT PAYMENTS AND RESERVES**

	<u>Annuities</u>	<u>Pensions</u>	<u>Total</u>
A. To retired members and beneficiaries			
1. Annual benefits	\$ 707,258,030	\$ 4,946,244,478	\$ 5,653,502,508
2. Reserve	0	0	0
3. Totals	<u>707,258,030</u>	<u>4,946,244,478</u>	<u>5,653,502,508</u>
B. To vested terminated members	203,926,330	150,432,461	354,358,791
C. To present active members			
1. Allocated to service rendered prior to valuation date	2,674,821,470	5,571,463,807	8,246,285,277
2. Allocated to service likely to be rendered after valuation date*	565,329,678	1,157,487,700	1,722,817,378
3. Total	<u>3,240,151,148</u>	<u>6,728,951,507</u>	<u>9,969,102,655</u>
D. Total Actuarial Present Value of Expected Future Benefit Payments and Reserves	\$4,151,335,508	\$11,825,628,446	\$15,976,963,954

* Based on 3% mandatory member contributions.

1996 FUND BALANCE SHEET
SUMMARY STATEMENT OF FUND RESOURCES AND OBLIGATIONS
JUNE 30, 2005

PRESENT RESOURCES AND EXPECTED FUTURE RESOURCES

	Annuities	Pensions	Total
A. Funding value of system assets			
1. Net assets from Fund financial statements	\$556,236,127	\$ 732,883,167	\$ 1,289,119,294
2. Funding value adjustment	(8,864,214)	(11,679,271)	(20,543,485)
3. Funding value of assets	547,371,913	721,203,896	1,268,575,809
B. Actuarial present value of expected future employer contributions			
1. For normal costs	0	1,286,429,089	1,286,429,089
2. For unfunded actuarial accrued liability	1,514,779	740,656,280	742,171,059
3. Total	1,514,779	2,027,085,369	2,028,600,148
C. Present value of expected future member contributions*	613,550,197	0	613,550,197
D. Total Present and Future Resources	\$1,162,436,889	\$2,748,289,265	\$3,910,726,154

**ACTUARIAL PRESENT VALUE OF EXPECTED FUTURE
BENEFIT PAYMENTS AND RESERVES**

	Annuities	Pensions	Total
A. To retired members and beneficiaries			
1. Annual benefits	\$ 22,236,208	\$ 197,485,328	\$ 219,721,536
2. Reserve	0	0	0
3. Totals	22,236,208	197,485,328	219,721,536
B. To vested terminated members	57,351,750	23,251,433	80,603,183
C. To present active members			
1. Allocated to service rendered prior to valuation date	469,298,734	1,241,123,415	1,710,422,149
2. Allocated to service likely to be rendered after valuation date*	613,550,197	1,286,429,089	1,899,979,286
3. Total	1,082,848,931	2,527,552,504	3,610,401,435
D. Total Actuarial Present Value of Expected Future Benefit Payments	\$1,162,436,889	\$2,748,289,265	\$3,910,726,154

* Based on 3% mandatory member contributions.

SECTION B



Historical Comparisons of Valuation Results and Data

**COMPUTED EMPLOYER CONTRIBUTION RATES
EXPRESSED AS PERCENTS OF PAYROLL
HISTORICAL COMPARISON**

PRE-1996 FUND

Valuation Date June 30	Normal Cost	Unfunded Actuarial Accrued Liability (UAAL)			Total Employer Rate
		Active and Inactive	Retired	Totals	
1967	4.10%	4.56%	1.77%	6.33%	10.43%
1969	4.20	4.61	1.90	6.51	10.71
1971	4.17	4.22	2.07	6.29	10.46
1975#	6.31	3.51	1.38	4.89	11.20
1977	6.86	4.07	1.71	5.78	12.64
1979	6.75	4.20	1.81	6.01	12.76
1980	6.71	4.26	1.80	6.06	12.77
1981	6.75	4.02	1.72	5.74	12.49
1983#	6.50	2.46	1.15	3.61	10.11
1985	6.35	2.63	1.05	3.68	10.03
1987	6.35	2.70	1.02	3.72	10.07
1989#	7.59	3.16	0.96	4.12	11.71
1991	7.50	3.26	0.95	4.21	11.71
1992#	7.79	3.39	0.99	4.38	12.17
1993	7.79	3.37	1.01	4.38	12.17
1994	7.79	3.44	1.07	4.51	12.30
1995	7.79	6.73	2.22	8.95	16.74
1996	7.79	6.83	2.34	9.17	16.96
1997#	7.44	7.07	2.26	9.33	16.77
1998	7.42	7.41	2.27	9.68	17.10
1999	7.42	7.76	1.84	9.60	17.02
2000	7.39	8.21	1.95	10.16	17.55
2001	7.32	8.48	2.05	10.53	17.85
2002#	7.39	8.74	2.23	10.97	18.36
2003#	5.99	9.68	3.64	13.32	19.31
2004#	5.94	10.79	4.64	15.43	21.37
2005#*	6.18	12.62	5.14	17.76	23.94

* Based on 0.5% future COLA assumption.

After amendments and/or revised actuarial assumptions and/or methods.

**COMPUTED EMPLOYER CONTRIBUTION RATES
EXPRESSED AS PERCENTS OF PAYROLL
HISTORICAL COMPARISON**

1996 FUND

Valuation Date June 30	Normal Cost	Unfunded Actuarial Accrued Liability (UAAL)			Total Employer Rate
		Active and Inactive	Retired	Totals	
1996	7.66%	1.36%	0.00%	1.36%	9.02%
1997#	7.61	1.51	0.00	1.51	9.12
1998	7.61	1.46	0.00	1.46	9.07
1999	7.58	1.70	0.00	1.70	9.28
2000	7.61	1.93	0.00	1.93	9.54
2001	7.46	1.86	0.00	1.86	9.32
2002#	7.53	1.97	0.00	1.97	9.50
2003#	6.20	1.77	0.32	2.09	8.29
2004#	6.14	2.10	0.15	2.25	8.39
2005#*	6.37	2.35	0.26	2.61	8.98

* Based on 0.5% future COLA assumption.

After amendments and/or revised actuarial assumptions and/or methods.

**HISTORICAL COMPARISON
PRE-1996 FUND
ACTUARIAL ACCRUED LIABILITY - PERCENT FUNDED**

If the contributions to ISTRF are level in concept and soundly executed, the Fund will *pay all promised benefits when due -- the ultimate indicator of financial soundness.*

One short-term means of checking a fund's progress under its funding program is shown below. In this indicator, the fund's present assets (cash and investments) are compared with:

- 1) active member contributions on deposit;
- 2) liability for future benefits to present retired lives; and
- 3) liability for service already rendered by active members.

In a fund that has been following the discipline of level percent-of-payroll financing, the liability for active member contributions on deposit (Liability 1) and the liability for future benefits to present retired lives (Liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liability for service already rendered by active members (Liability 3) will be partially covered by the remainder of present assets. The State's past practice of contributing on a "pay-as-you-go" basis has resulted in Liability 2 being less than 100% funded in the Pre-1996 Fund.

June 30	<u>Computed Actuarial Accrued Liability</u>			Valuation Assets	Portion of Accrued Liability Covered by Assets		
	(1) Member Contr.	(2) Retired Members	(3) Present Members (Employer-Financed Portion)		(1)	(2)	(3)
			(\$ in Millions)				
1975#(a)	\$ 216	\$ 451	\$ 903	\$ 312	100%	21%	0%
1977#	265	634	1,246	375	100	17	-
1979#(a)	324	777	1,481	466	100	18	-
1980	373	838	1,632	539	100	18	-
1981	423	885	1,649	601	100	20	-
1983(a)	544	1,043	1,751	765	100	21	-
1985	713	1,198	2,112	1,073	100	30	-
1987	932	1,406	2,499	1,401	100	33	-
1989#	1,132	1,624	3,449	1,707	100	35	-
1991	1,373	1,853	3,956	2,161	100	43	-
1992(a)	1,521	2,059	4,369	2,376	100	42	-
1993	1,665	2,290	4,553	2,592	100	41	-
1994	1,812	2,483	4,792	2,808	100	40	-
1995	1,930	2,716	5,029	2,984	100	39	-
1996	2,070	2,968	5,245	3,242	100	39	-
1997(a)	2,188	3,234	5,447	3,678	100	46	-
1998	2,374	3,479	5,629	4,130	100	50	-
1999	2,500	3,659	6,014	4,731	100	61	-
2000	2,699	3,890	5,819	5,210	100	65	-
2001	2,669	4,121	5,905	5,363	100	65	-
2002(a)	2,754	4,412	6,332	5,555	100	63	-
2003(a)	2,897	4,833	5,626	5,729	100	59	-
2004(a)	2,870	5,116	5,562	5,766	100	57	-
2005(a)	2,879	5,654	5,722	5,797	100	52	-

Legislated plan amendments.

(a) Actuarial assumptions and/or methods revised.

HISTORICAL COMPARISON
1996 FUND
ACTUARIAL ACCRUED LIABILITY - PERCENT FUNDED

June 30	Computed Actuarial Accrued Liability			Valuation Assets	Portion of Accrued Liability Covered by Assets		
	(1) Member Contr.	(2) Retired Members	(3) Present Members (Employer-Financed Portion) (\$ in Millions)		(1)	(2)	(3)
	1996	\$ 14	\$ 0		\$ 33	\$ 21	100%
1997(a)	46	0	130	72	100	100	20
1998	74	3	222	136	100	100	27
1999	126	4	369	240	100	100	30
2000	195	10	502	368	100	100	33
2001	211	12	605	447	100	100	37
2002(a)	291	17	858	621	100	100	36
2003(a)	382	108	903	826	100	100	37
2004(a)	449	149	1,051	1,039	100	100	42
2005(a)	527	220	1,264	1,269	100	100	41

(a) Actuarial assumptions and/or methods revised.

UNFUNDED ACTUARIAL ACCRUED LIABILITY

PRE-1996 FUND

June 30	Computed Actuarial Accrued Liability*	Valuation Assets	Unfunded Actuarial Accrued Liability (UAAL)
1975#(a)	\$ 1,570	\$ 312	\$1,258
1977#	2,145	375	1,770
1979#(a)	2,582	466	2,116
1980	2,843	539	2,304
1981	2,957	601	2,356
1983(a)	3,338	765	2,573
1985	4,023	1,073	2,950
1987	4,837	1,401	3,436
1989#	6,205	1,707	4,498
1991	7,182	2,161	5,021
1992(a)	7,949	2,376	5,573
1993	8,508	2,592	5,916
1994	9,087	2,809	6,279
1995	9,675	2,984	6,691
1996	10,283	3,242	7,041
1997(a)	10,868	3,678	7,190
1998	11,481	4,130	7,351
1999	12,173	4,731	7,442
2000	12,409	5,210	7,199
2001	12,696	5,363	7,332
2002(a)	13,498	5,555	7,942
2003(a)	13,355	5,729	7,626
2004(a)	13,549	5,766	7,783
2005(a)	14,254	5,797	8,457

1996 FUND

June 30	Computed Actuarial Accrued Liability*	Valuation Assets	Unfunded Actuarial Accrued Liability (UAAL)
1996	\$ 48	\$ 21	\$ 27
1997(a)	176	72	104
1998	298	136	162
1999	498	240	258
2000	706	368	338
2001	828	447	381
2002(a)	1,167	621	546
2003(a)	1,392	826	567
2004(a)	1,649	1,039	611
2005(a)	2,011	1,269	742

Legislated plan amendments.

(a) Actuarial assumptions and/or methods revised.

* Including annuity reserve.

The presence of unfunded actuarial accrued liability in the 1996 Fund reflects the inclusion of transfers from the Pre-1996 Fund with prior service credit.

RETIRED MEMBERS AND BENEFICIARIES MONTHLY ALLOWANCES AND RELATED LIABILITY HISTORICAL COMPARISON

PRE-1996 FUND

Valuation June 30	Monthly Allowances Being Paid				Computed Liability		Reserves Available for	Ratio of Reserves to
	Number	Annuities	Pensions	Avg. Total Allowances	Annuities #	Pensions	Retired Members	Liability
1976*	19,961	\$ 713,332	\$ 4,949,716	\$ 284	\$ 90,519,552	\$ 430,998,792	\$ 103,417,581	19.8 %
1977	20,670	767,214	5,419,783	299	81,192,972	553,129,812	109,541,561	17.3
1978	21,312	821,780	5,981,203	319	87,002,688	608,034,852	122,903,169	17.7
1979	21,808	875,217	6,478,769	337	92,554,872	684,265,584	138,791,199	17.9
1980	22,255	933,253	7,609,102	384	98,744,304	739,477,692	152,227,411	18.2
1981	22,738	1,003,764	7,891,508	391	106,525,692	778,993,680	178,126,912	20.1
1982	23,261	1,086,088	8,656,992	419	109,389,360	853,368,564	210,986,498	21.9
1983*	23,631	1,167,337	9,576,598	455	121,488,456	921,241,128	220,447,081	21.1
1984	24,042	1,270,621	10,152,389	475	132,872,688	969,470,076	267,364,320	24.3
1985	24,496	1,412,942	10,989,033	506	149,309,064	1,049,064,600	360,036,868	30.0
1986	24,954	1,580,585	11,848,715	538	168,855,576	1,127,083,092	423,496,495	32.7
1987	25,492	1,771,901	12,705,712	568	191,274,096	1,214,737,224	468,533,788	33.3
1988	25,849	1,954,326	13,521,271	599	212,323,404	1,295,323,680	525,277,956	34.8
1989	26,173	2,158,461	14,387,419	632	235,879,716	1,387,778,748	575,176,619	35.4
1990	26,664	2,448,268	15,649,770	679	270,612,204	1,521,301,656	664,922,515	37.1
1991	27,177	2,729,359	15,498,308	671	300,739,500	1,552,581,216	787,869,959	42.5
1992*	27,759	3,006,489	16,441,198	701	341,941,104	1,717,495,500	855,640,166	41.5
1993	28,194	3,439,687	17,180,701	731	469,421,977	1,820,905,044	927,804,051	41.0
1994	28,677	3,695,040	18,563,890	776	499,429,500	1,983,402,204	996,033,842	40.1
1995	29,364	3,955,212	20,228,163	824	534,973,912	2,181,300,588	1,054,045,397	38.8
1996	30,120	4,212,455	22,081,911	873	564,310,332	2,404,081,944	1,172,253,144	39.5
1997*	30,657	4,432,010	23,949,443	926	590,012,474	2,643,637,512	1,490,448,302	46.1
1998	31,307	4,650,748	25,867,893	975	607,908,268	2,870,838,240	1,756,324,911	50.5
1999(a)	32,018	4,843,545	27,524,587	1,011	625,058,387	3,034,060,036	2,231,076,672	61.0
2000	32,818	5,057,926	30,285,194	1,077	648,366,105	3,242,529,456	2,510,470,810	64.5
2001	33,698	5,231,219	32,544,302	1,121	618,238,221	3,503,121,001	2,694,552,158	65.4
2002(b)*	34,646	5,444,155	34,613,345	1,156	610,673,717	3,801,054,120	2,801,796,282	63.5
2003(b)*	35,627	5,639,861	37,411,550	1,208	641,340,982	4,191,479,956	2,832,032,640	58.6
2004(b)	36,271	5,931,491	39,648,539	1,257	674,524,850	4,441,666,364	2,895,442,408	56.6
2005(b)*	37,421	6,261,855	42,621,247	1,306	707,258,030	4,946,244,478	2,917,975,867	51.6

* Revised assumptions and/or methods.

Includes annuity reserve.

(a) The data did not include the COLA effective 7/1/99. An adjustment was made to the pension liability and projected pension payouts for valuation purposes.

(b) Liability calculations include COLA effective the following January.

**RETIRED MEMBERS AND BENEFICIARIES MONTHLY ALLOWANCES AND RELATED LIABILITY
HISTORICAL COMPARISON**

1996 FUND

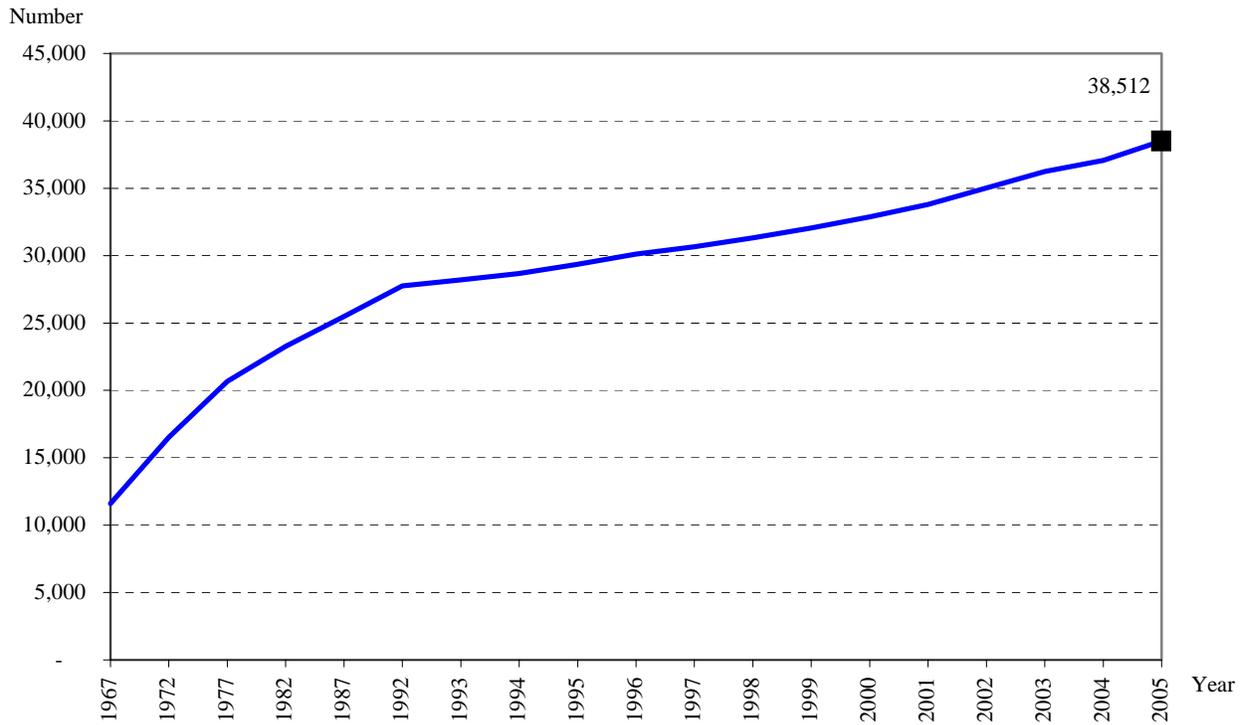
Valuation June 30	Monthly Allowances Being Paid				Computed Liability		Reserves Available for Retired Members	Ratio of Reserves to Liability
	Number	Annuities	Pensions	Avg. Total Allowances	Annuities #	Pensions		
1996	1	\$ 334	\$ 1,727	\$2,061	\$ 55,108	\$ 248,376	\$ 303,484	100.0%
1997*	1	334	1,762	2,096	133,846	252,564	386,410	100.0
1998	18	2,257	16,494	1,042	431,846	2,219,496	2,703,524	100.0
1999	30	3,311	28,760	1,069	498,774	3,404,460	3,903,234	100.0
2000	60	7,460	62,532	1,167	1,126,062	7,553,052	8,679,114	100.0
2001	85	8,169	90,677	1,163	1,138,375	10,942,426	13,070,250	108.2
2002(a)*	108	13,328	125,194	1,283	1,771,082	15,567,573	17,656,813	101.8
2003(a)*	608	93,526	777,095	1,432	12,019,058	95,665,053	25,007,521	23.2
2004(a)	797	128,231	1,078,437	1,514	16,510,645	132,378,472	109,421,034	73.5
2005(a)*	1,091	172,184	1,543,131	1,572	22,236,208	197,485,328	146,201,342	66.5

* Revised assumptions and/or methods.

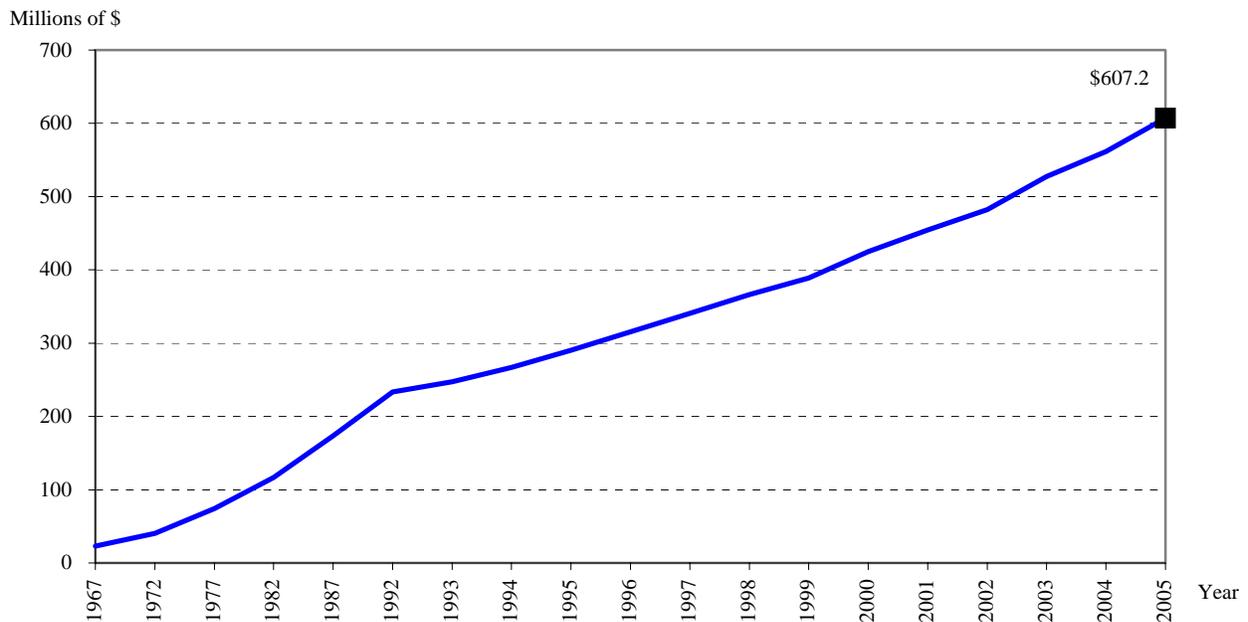
Includes annuity reserve.

(a) Liability calculations include COLA effective the following January.

RETIRED MEMBERS AND BENEFICIARIES RECEIVING BENEFITS



TOTAL ANNUAL RETIREMENT ALLOWANCES BEING PAID



ACTIVE MEMBER DATA HISTORICAL COMPARISON

PRE-1996 FUND

Valuation Date June 30	No. of Active Members	Valuation Payroll (+000)	Averages			
			Age	Service	Salary	Annual Increase
1975	63,932	\$ 749,200	38.7 yrs.	10.9 yrs.	\$11,719	
1977	65,573	891,780	39.0	11.2	13,600	7.7%
1979	66,523	1,024,888	39.4	11.5	15,406	6.4
1980	66,575	1,107,699	39.7	11.9	16,638	8.0
1981	65,283	1,194,856	40.0	12.2	18,303	10.0
1983	64,280	1,350,061	41.1	13.3	21,003	7.1
1985	62,932	1,519,887	41.5	14.2	24,151	7.2
1987	64,157	1,751,709	42.0	14.5	27,303	6.3
1989	65,986	2,044,797	42.6	14.9	30,988	6.5
1991	63,373	2,278,715	43.0	15.4	35,957	7.7
1992	63,980	2,416,263	43.8	16.0	37,766	5.0
1993	64,594	2,536,165	44.0	16.1	39,263	4.0
1994	65,209	2,614,915	44.1	16.2	40,101	2.1
1995	66,542	2,728,811	44.2	16.2	41,009	2.3
1996	70,183	2,805,823	44.2	15.7	39,979	(2.5)
1997	63,520	2,739,436	45.4	16.9	43,127	7.9
1998	59,030	2,699,183	46.4	18.0	45,726	6.0
1999	56,560	2,755,489	47.4	19.3	48,718	6.5
2000	52,920	2,561,533	48.2	20.1	48,404	(0.6)
2001	50,802	2,564,451	48.7	20.7	50,479	4.3
2002	47,510	2,604,956	49.4	21.5	54,830	8.6
2003	43,705	2,448,271	49.6	21.7	56,018	2.2
2004	41,510	2,384,480	50.1	22.2	57,444	2.5
2005	39,097	2,305,726	50.6	22.7	58,974	2.7

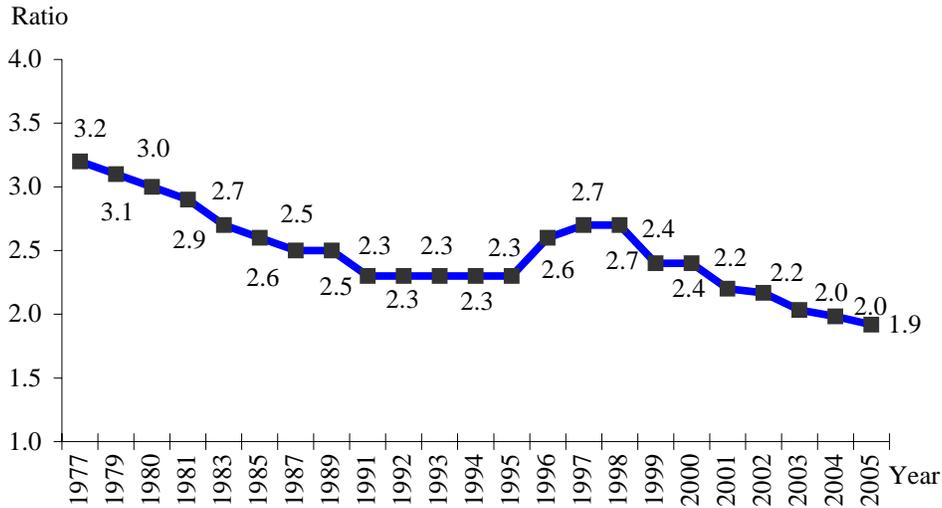
1996 FUND

Valuation Date June 30	No. of Active Members	Valuation Payroll (+000)	Averages			
			Age	Service	Salary	Annual Increase
1996	8,683	\$ 72,506	32.2 yrs.	1.3 yrs.	\$ 8,350	
1997	20,686	245,168	33.0	1.8	11,852	41.9%
1998	25,634	395,758	33.6	2.2	15,439	30.3
1999	21,185 *	538,837	35.3	4.0	25,435	64.7
2000	24,950	631,072	36.4	4.7	25,293	(0.6)
2001	24,846	754,426	36.3	5.5	30,364	20.0
2002	27,873	1,004,515	36.7	6.1	36,039	18.7
2003	29,936	1,136,864	37.0	6.5	37,976	5.4
2004	32,000	1,267,173	37.3	6.9	39,599	4.3
2005	34,826	1,428,604	37.5	7.2	41,021	3.6

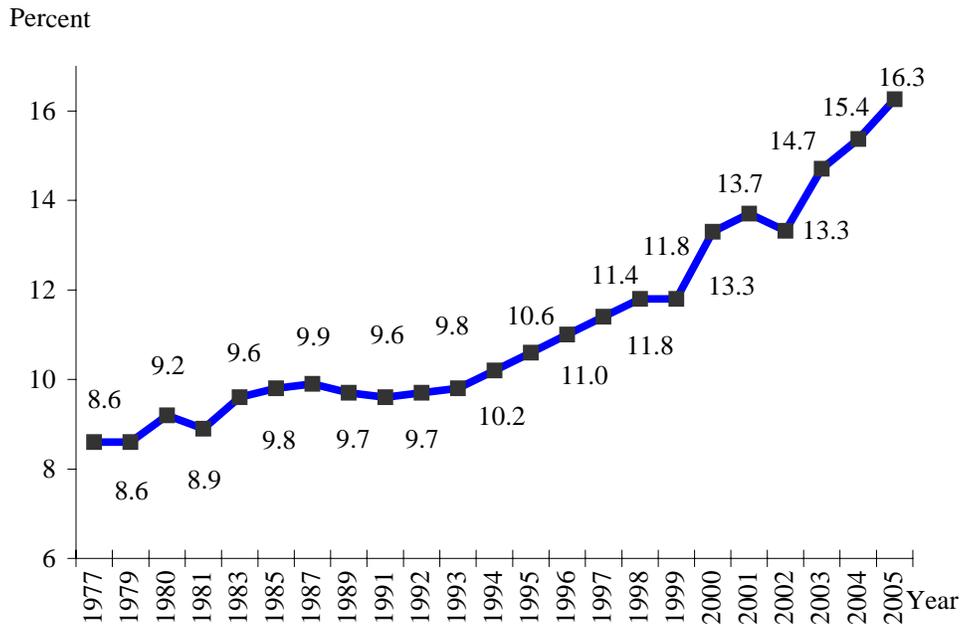
* Excludes non-degreed substitute teachers (who had previously been included in the data but who do not participate in the Fund).

TRF COMPARATIVE STATISTICAL RATIOS

ACTIVE MEMBERS PER RETIRED LIFE



ANNUAL RETIREMENT ALLOWANCES AS A PERCENT OF VALUATION PAYROLL



SECTION C



Population Projections

CLOSED GROUP ACTUARIAL PROJECTIONS

The schedules on the following pages for the Pre-1996 Fund were produced by means of an actuarial projection.

Whereas actuarial valuations provide a snapshot of the Retirement Fund as of a given date, actuarial projections provide a moving picture of Retirement Fund activities. The projected active and retired groups are developed from year to year by applying assumptions regarding pre-retirement withdrawal from service, retirements, deaths, and disabilities. Projected information regarding plan activity produces an expected future benefit payout stream.

Projection results are useful in demonstrating changing relationships among key elements affecting system financial activity. For example: how benefits payable and assets will grow in future decades. **Projections are not predictions of specific future events and do not provide numeric precision in absolute terms.** For instance, benefits projected to occur 10 years in the future will not be exact (except by coincidence), but understanding the changed relationships over a period of years can be very useful.

PRE-1996 FUND
ACTIVE AND RETIRED MEMBER CLOSED GROUP PROJECTION
BASED ON JUNE 30, 2005 VALUATION DATA AND ASSUMPTIONS
(\$ IN MILLIONS)

Year	Active Members		Retired Members	
	Number	Payroll	Number	State-Financed Benefits
2006	36,690	\$ 2,283.0	39,136	\$ 549.1
2007	34,315	2,248.6	40,329	581.2
2008	31,922	2,200.3	41,576	615.5
2009	29,512	2,137.8	42,846	653.1
2010	27,113	2,062.5	44,117	694.3
2011	24,767	1,977.3	45,324	737.7
2012	22,486	1,882.7	46,536	785.5
2013	20,296	1,780.6	47,659	835.3
2014	18,245	1,676.0	48,643	884.2
2015	16,320	1,568.7	49,443	931.9
2016	14,533	1,460.9	50,088	977.9
2017	12,872	1,352.4	50,611	1,022.5
2018	11,351	1,246.0	50,922	1,063.7
2019	9,974	1,143.6	51,012	1,100.7
2020	8,732	1,045.6	50,936	1,133.6
2021	7,619	952.6	50,665	1,162.4
2022	6,617	863.5	50,254	1,187.1
2023	5,727	780.0	49,668	1,207.0
2024	4,932	701.0	48,923	1,222.3
2025	4,216	625.1	48,042	1,233.5
2026	3,576	553.0	47,036	1,240.4
2027	3,002	484.2	45,935	1,243.6
2028	2,504	421.2	44,729	1,242.1
2029	2,076	364.0	43,415	1,235.9
2030	1,705	311.7	42,014	1,225.6
2031	1,392	265.2	40,492	1,210.4
2032	1,122	222.7	38,872	1,191.0
2033	897	185.3	37,168	1,167.0
2034	708	152.4	35,409	1,138.9
2035	551	123.4	33,618	1,107.3

Note: Projections are intended to demonstrate the pattern of future activities and should not be viewed as a prediction of specific dollar amounts in any year.

PRE-1996 FUND
ACTIVE AND RETIRED MEMBER CLOSED GROUP PROJECTION
BASED ON JUNE 30, 2005 VALUATION DATA AND ASSUMPTIONS
(\$ IN MILLIONS)

- CONTINUED -

Year	Active Members		Retired Members	
	Number	Payroll	Number	State-Financed Benefits
2036	426	\$ 99.1	31,811	\$ 1,072.3
2037	323	78.3	29,981	1,034.4
2038	244	61.4	28,136	993.6
2039	182	47.8	26,291	950.6
2040	132	36.0	24,480	906.2
2041	95	26.8	22,708	860.4
2042	67	19.6	20,983	813.7
2043	48	14.5	19,315	766.3
2044	34	10.9	17,714	718.7
2045	24	8.1	16,186	671.7
2046	17	5.8	14,740	625.5
2047	11	4.0	13,372	580.5
2048	7	2.6	12,086	536.7
2049	4	1.6	10,885	494.5
2050	2	0.9	9,769	453.8
2051	1	0.4	8,737	415.0
2052	0	0.1	7,787	378.0
2053	0	0.0	6,915	343.0
2054	0	0.0	6,118	309.9
2055	0	0.0	5,394	278.9

Note: Projections are intended to demonstrate the pattern of future activities and should not be viewed as a prediction of specific dollar amounts in any year.

SECTION D



Summary of **B**enefit Provisions

SUMMARY OF BENEFIT PROVISIONS (SUMMARY UPDATED TO JUNE 30, 2005)

REGULAR RETIREMENT (NO REDUCTION FACTOR FOR AGE)

Eligibility - Age 65 with 10 years service or age 60 with 15 or more years of service or if age is at least 55 and the sum of age plus credited service is 85 or more.

Mandatory Retirement Age - None.

Annual Amount - State pension equal to total service times 1.1% of Average Annual Compensation.

Type of Final Average Salary - Average of highest 5 years of compensation. Years do not need to be continuous.

EARLY RETIREMENT (AGE REDUCTION FACTOR USED)

Eligibility - Age 50 with 15 or more years of service.

Annual Amount - State pension is computed as regular retirement benefit, but reduced for each month between age at early retirement and attainment of age 65. The age reduction factor is calculated as the sum of the following:

- 1/10 of 1% for all months from age 60 to 65.
- 5/12 of 1% for months from age at early retirement to 60.

DEFERRED RETIREMENT (VESTED BENEFIT)

Eligibility - 10 years of service. Benefit commences at regular or early retirement eligibility.

Annual Amount - Computed as a regular retirement benefit with state pension based on service and Average Annual Compensation at termination.

DISABILITY RETIREMENT

Classroom disability benefit:

Eligibility - 5 years of service.

Annual Amount - \$125 per month plus \$5 per month for each year of service credit over 5 years.

Alternative disability benefit:

Eligibility - 5 years of service and determined to be disabled by the Social Security Administration. Annual verification of Social Security disability is required.

Annual Amount - Computed as a regular retirement benefit using creditable service to the date of disability and without reduction for early retirement. The minimum benefit is \$100 per month.

SUMMARY OF BENEFIT PROVISIONS (CONTINUED) (SUMMARY UPDATED TO JUNE 30, 2005)

DEATH BEFORE RETIREMENT

Eligibility - 15 years of service. Spouse to whom member had been married for 2 or more years is automatically eligible, or a dependent may be designated as beneficiary.

Annual Amount - Computed as regular retirement benefit but reduced in accordance with a 100% joint and survivor election.

BENEFIT INCREASES AFTER RETIREMENT

No automatic increases after retirement are provided. Periodically, unscheduled increases have been made.

MEMBER CONTRIBUTIONS

All Fund members are required by state law to contribute 3% of salary contributions to their Annuity Savings Account. These 3% contributions are “picked up” by the employer and contributed on a pre-tax basis on behalf of the employee. Extra voluntary contributions by the member are also possible but on a post-tax basis. At retirement, there are six alternatives for receiving the proceeds of this account including lump sums, full and partial rollovers, full and partial annuitization of the balance and deferred distribution.

FORMS OF BENEFIT PAYMENT (STATE PENSION)

The normal form of benefit payment (*Option A-1*) is a single life annuity with a 5-year certain period. There are 5 optional forms of payment available as listed below. Additionally, members retiring between ages 50 and 62 may integrate their pension benefit with their Social Security benefit by choosing Social Security Integration (*Option A-4*) in conjunction with the normal form or any other optional form selected. Optional forms of payment are calculated on an actuarial equivalent basis.

Option A-2: Straight Life benefit with no certain period.

Option A-3: Modified Cash Refund Annuity (operates in conjunction with the Annuity Savings Account).

Option B-1: 100% Survivorship.

Option B-2: 66 2/3% Survivorship.

Option B-3: 50% Survivorship

State law provides for actuarially adjusted and recalculated benefits based on a new optional form election in the event of the death of the member's spouse after retirement. (IC 5-10.2-4-7)

SECTION E



Details of Valuation Data

PRE-1996 FUND
RETIRED MEMBERS AND BENEFICIARIES JUNE 30, 2005
MONTHLY BENEFIT AMOUNTS BY TYPE OF BENEFIT BEING PAID

Type of Benefit	Number	Monthly Amounts Being Paid		
		Annuities	Pensions	Total
Age and Service				
Option A-1 - 5 YR. CERT.				
(Regular)	8,033	\$ 1,146,515	\$ 8,594,854	\$ 9,741,369
(With Opt. A-4)	578	72,006	1,216,863	1,288,869
(S.S. After 65)	2,583	320,458	1,907,461	2,227,919
Option A-2 - S.L.				
(Regular)	4,832	856,236	5,695,812	6,552,048
(With Opt. A-4)	271	49,409	586,604	636,013
(S.S. After 65)	1,032	160,388	953,531	1,113,919
Option A-3 - CRA				
(Regular)	926	279,832	1,020,562	1,300,394
(With Opt. A-4)	70	36,646	143,873	180,519
(S.S. After 65)	352	80,529	278,192	358,721
Option B-1 - 100%JS				
(Regular)	7,727	1,422,929	9,583,334	11,006,263
(With Opt. A-4)	365	61,993	737,683	799,676
(S.S. After 65)	1,747	297,440	1,755,685	2,053,125
Option B-2 - 67%JS				
(Regular)	2,496	494,050	3,231,001	3,725,051
(With Opt. A-4)	116	22,897	248,625	271,522
(S.S. After 65)	688	128,597	711,108	839,705
Option B-3 - 50%JS				
(Regular)	2,760	503,719	3,390,691	3,894,410
(With Opt. A-4)	196	43,422	433,415	476,837
(S.S. After 65)	852	138,246	833,884	972,130
Survivor Beneficiary				
(Regular)	-	-	-	-
(With Opt. A-4)	-	-	-	-
(S.S. After 65)	-	-	-	-
Age and Service Totals	35,624	\$ 6,115,312	\$ 41,323,178	\$ 47,438,490

PRE-1996 FUND
RETIRED MEMBERS AND BENEFICIARIES JUNE 30, 2005
MONTHLY BENEFIT AMOUNTS BY TYPE OF BENEFIT BEING PAID

(Continued)

Type of Benefit	Number	Monthly Amounts Being Paid		
		Annuities	Pensions	Total
Duty Disability (Classroom)	<u>51</u>	-	\$ <u>15,741</u>	\$ <u>15,741</u>
Duty Disability Totals	51	-	15,741	15,741
Non-Duty Disability (Regular)				
Option A-1 - 5 YR. CERT.	142	\$ 15,989	\$ 146,305	\$ 162,294
Option A-2 - S.L.	75	9,478	66,004	75,482
Option A-3 - CRA	20	5,094	20,137	25,231
Option B-1 - 100%JS	253	27,951	239,626	267,577
Option B-2 - 67%JS	20	4,244	22,497	26,741
Option B-3 - 50%JS	<u>34</u>	<u>4,788</u>	<u>31,305</u>	<u>36,093</u>
Non-Duty Disability Totals	544	\$ 67,544	\$ 525,874	\$ 593,418
Non-Duty Death (Regular)				
Spouse	<u>1,202</u>	<u>78,999</u>	<u>756,454</u>	<u>835,453</u>
Non-Duty Death Totals	1,202	\$ 78,999	\$ 756,454	\$ 835,453
Casualty Totals	1,797	\$ 146,543	\$ 1,298,069	\$ 1,444,612
Total Allowances Being Paid	<u>37,421</u>	<u>\$ 6,261,855</u>	<u>\$ 42,621,247</u>	<u>\$ 48,883,102</u>

1996 FUND
RETIRED MEMBERS AND BENEFICIARIES JUNE 30, 2005
MONTHLY BENEFIT AMOUNTS BY TYPE OF BENEFIT BEING PAID

Type of Benefit	Number	Monthly Amounts Being Paid		
		Annuities	Pensions	Total
Age and Service				
Option A-1 - 5 YR. CERT.				
(Regular)	220	\$ 29,539	\$ 279,895	\$ 309,434
(With Opt. A-4)	51	4,075	103,957	108,032
(S.S. After 65)	51	8,204	72,171	80,375
Option A-2 - S.L.				
(Regular)	144	21,562	187,190	208,752
(With Opt. A-4)	21	2,850	45,340	48,190
(S.S. After 65)	15	4,140	20,598	24,738
Option A-3 - CRA				
(Regular)	28	9,269	29,802	39,071
(With Opt. A-4)	3	1,459	6,533	7,992
(S.S. After 65)	15	6,276	19,920	26,196
Option B-1 - 100%JS				
(Regular)	254	46,837	356,959	403,796
(With Opt. A-4)	22	3,997	49,217	53,214
(S.S. After 65)	43	4,155	63,607	67,762
Option B-2 - 67%JS				
(Regular)	62	5,848	92,621	98,469
(With Opt. A-4)	7	1,339	17,849	19,188
(S.S. After 65)	7	1,022	10,799	11,821
Option B-3 - 50%JS				
(Regular)	71	12,049	111,349	123,398
(With Opt. A-4)	10	4,305	26,431	30,736
(S.S. After 65)	9	1,108	13,549	14,657
Age and Service Totals	1,033	\$ 168,034	\$ 1,507,787	\$ 1,675,821

1996 FUND
RETIRED MEMBERS AND BENEFICIARIES JUNE 30, 2005
MONTHLY BENEFIT AMOUNTS BY TYPE OF BENEFIT BEING PAID

Type of Benefit	Number	Monthly Amounts Being Paid		
		Annuities	Pensions	Total
Duty Disability (Classroom)	<u>0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Duty Disability Totals	0	0	0	0
Non-Duty Disability (Regular)				
Option A-1 - 5 YR. CERT.	10	\$ 431	\$ 4,805	\$ 5,236
Option A-2 - S.L.	6	108	2,826	2,934
Option A-3 - CRA	1	87	313	400
Option B-1 - 100%JS	19	1,786	12,429	14,215
Option B-2 - 67%JS	1	403	1,176	1,579
Option B-3 - 50%JS	<u>2</u>	<u>227</u>	<u>995</u>	<u>1,222</u>
Non-Duty Disability Totals	39	\$ 3,042	\$ 22,544	\$ 25,586
Non-Duty Death (Regular)				
Spouse	<u>19</u>	<u>1,108</u>	<u>12,800</u>	<u>13,908</u>
Non-Duty Death Totals	19	\$ 1,108	\$ 12,800	\$ 13,908
Casualty Totals	58	\$ 4,150	\$ 35,344	\$ 39,494
Total Allowances Being Paid	<u>1,091</u>	<u>\$172,184</u>	<u>\$1,543,131</u>	<u>\$1,715,315</u>

PRE-1996 FUND
RETIRED MEMBERS AND BENEFICIARIES JUNE 30, 2005
TABULATED BY YEAR OF RETIREMENT

Year of Retirement	Number	Monthly Pensions	
		Total	Average
Before 1970	440	\$ 171,962	\$ 391
1970	116	50,514	436
1971	164	79,330	484
1972	199	102,987	518
1973	260	143,025	550
1974	314	175,082	558
1975	293	165,158	564
1976	357	212,046	594
1977	396	239,275	604
1978	465	289,949	624
1979	536	338,248	631
1980	612	377,610	617
1981	607	377,886	623
1982	598	380,669	637
1983	666	428,461	643
1984	734	481,285	656
1985	1,045	732,902	701
1986	850	610,762	719
1987	987	754,009	764
1988	1,088	886,709	815
1989	863	729,257	845
1990	1,329	1,276,791	961
1991	1,284	1,320,083	1,028
1992	1,153	1,227,537	1,065
1993	1,203	1,390,312	1,156
1994	1,338	1,565,354	1,170
1995	1,670	2,031,891	1,217
1996	1,650	2,060,977	1,249
1997	1,433	1,766,520	1,233
1998	1,783	2,181,325	1,223
1999	1,630	2,160,392	1,325
2000	1,895	2,696,548	1,423
2001	1,886	2,872,536	1,523
2002	2,156	3,357,015	1,557
2003	1,847	2,978,344	1,613
2004	2,219	3,677,981	1,658
2005	1,355	2,330,515	1,720
TOTALS	37,421	\$42,621,247	\$1,139

1996 FUND
RETIRED MEMBERS AND BENEFICIARIES JUNE 30, 2005
TABULATED BY YEAR OF RETIREMENT

Year of Retirement	Number	Monthly Pensions	
		Total	Average
1974	1	\$ 341	\$ 341
1975	1	266	266
1981	3	1,717	572
1982	1	865	865
1985	1	887	887
1986	2	1,443	721
1987	6	4,474	746
1988	6	4,487	748
1989	6	4,190	698
1990	11	9,499	864
1991	14	11,171	798
1992	11	11,851	1,077
1993	11	9,980	907
1994	16	15,401	963
1995	23	25,956	1,129
1996	33	41,064	1,244
1997	31	36,236	1,169
1998	43	50,142	1,166
1999	51	65,523	1,285
2000	75	89,768	1,197
2001	100	138,756	1,388
2002	141	219,025	1,553
2003	193	314,178	1,628
2004	184	271,125	1,474
2005	127	214,784	1,691
TOTALS	1,091	\$1,543,131	\$1,414

This schedule may include individuals who retired from the Pre-1996 Fund and returned to work, and then retired again (from the 1996 Fund).

PRE-1996 FUND
MONTHLY RETIREMENT ALLOWANCES BY ATTAINED AGE
AS OF JUNE 30, 2005

Attained Ages	Men		Women		Totals	
	Number	Monthly Allowances	Number	Monthly Allowances	Number	Monthly Allowances
UNDER 20	2	\$ 632	9	\$ 4,001	11	\$ 4,633
20 - 24	1	899	3	2,172	4	3,071
25 - 29	-	-	3	4,064	3	4,064
30 - 34	6	5,357	3	1,252	9	6,609
35 - 39	5	3,854	6	4,928	11	8,782
40 - 44	15	13,431	19	12,316	34	25,747
45 - 49	27	16,173	53	33,512	80	49,685
50 - 54	106	68,286	209	157,233	315	225,519
55 - 59	1,312	2,467,222	2,150	3,715,567	3,462	6,182,789
60 - 64	2,603	4,560,754	4,080	6,089,159	6,683	10,649,913
65 - 69	2,802	4,677,849	4,085	5,421,220	6,887	10,099,069
70 - 74	2,553	3,926,728	3,531	4,300,482	6,084	8,227,210
75 - 79	2,002	2,724,353	3,352	3,421,125	5,354	6,145,478
80 - 84	1,299	1,479,268	2,539	2,135,772	3,838	3,615,040
85 - 89	571	574,208	2,143	1,588,518	2,714	2,162,726
90 - 94	213	205,330	1,172	854,490	1,385	1,059,820
95 - 99	38	39,191	434	317,430	472	356,621
Over 100	2	3,007	73	53,319	75	56,326
Totals	13,557	\$20,766,542	23,864	\$28,116,560	37,421	\$48,883,102

1996 FUND
MONTHLY RETIREMENT ALLOWANCES BY ATTAINED AGE
AS OF JUNE 30, 2005

Attained Ages	Men		Women		Totals	
	Number	Monthly Allowances	Number	Monthly Allowances	Number	Monthly Allowances
UNDER 20	-	-	-	-	-	-
20 - 24	-	-	1	\$ 757	1	\$ 757
25 - 29	-	-	-	-	-	-
30 - 34	-	-	-	-	-	-
35 - 39	1	\$ 353	2	479	3	832
40 - 44	1	607	3	1,668	4	2,275
45 - 49	2	1,091	6	2,996	8	4,087
50 - 54	9	7,299	22	13,239	31	20,538
55 - 59	131	263,453	149	252,093	280	515,546
60 - 64	166	326,534	204	321,292	370	647,826
65 - 69	99	164,688	137	170,211	236	334,899
70 - 74	46	71,334	53	53,914	99	125,248
75 - 79	13	17,823	24	20,700	37	38,523
80 - 84	11	13,272	8	7,838	19	21,110
85 - 89	2	3,074	-	-	2	3,074
90 - 94	-	-	1	600	1	600
95 - 99	-	-	-	-	-	-
Over 100	-	-	-	-	-	-
Totals	481	\$869,528	610	\$845,787	1,091	\$1,715,315

**PRE-1996 FUND INACTIVE VESTED MEMBERS
AS OF JUNE 30, 2005
BY ATTAINED AGE AND YEARS OF SERVICE**

Attained Age	Years of Service to Valuation Date							Total
	0-4	5-9	10-14	15-19	20-24	25-29	30+	
30-34			14					14
35-39			165	7	1			173
40-44			274	97	12			383
45-49			243	157	69	15	1	485
50-54			378	222	174	103	51	928
55-59			431	329	206	143	68	1,177
60			63	32	22	6	9	132
61			77	28	12	6	8	131
62			80	15	7	6	7	115
63			69	17	8	6	4	104
64			43	11	4	8	5	71
65			27	13	5	2	4	51
66			14	14	5	1	1	35
67			19	7	2	1	2	31
68			15	10	5	8	2	40
69			8	10	7	2	1	28
70			11	6	3	3	2	25
71			11	7	4	1	3	26
72			15	5	2	3	1	26
73			7	9	7	4	4	31
74			15	8	5	2	5	35
75			7	10	8	4	3	32
76			6	6	5	1	7	25
77			4	6	9	3	4	26
78			10	6	9	5	5	35
79 & Over			62	41	36	31	32	202
Totals	-	-	2,068	1,073	627	364	229	4,361

Average Age: 56.0 years
Average Service: 16.9 years

**1996 FUND INACTIVE VESTED MEMBERS
AS OF JUNE 30, 2005
BY ATTAINED AGE AND YEARS OF SERVICE**

Attained Age	Years of Service to Valuation Date							Total
	0-4	5-9	10-14	15-19	20-24	25-29	30+	
30-34			13					13
35-39			90	2				92
40-44			80	31	5			116
45-49			89	38	18	2		147
50-54			94	57	36	16	6	209
55-59			97	47	33	14	8	199
60			11	6	3	2		22
61			15	3	3		2	23
62			17	3	1			21
63			8	2	1	1	1	13
64			12	3				15
65			2				1	3
66			2					2
67			1		1			2
68			1					1
70			1					1
72				1				1
76			1					1
78							1	1
Totals	-	-	534	193	101	35	19	882

Average Age: 50.5 years
Average Service: 15.2 years

**PRE-1996 FUND ACTIVE MEMBERS
AS OF JUNE 30, 2005
BY ATTAINED AGE AND YEARS OF SERVICE**

Attained Age	Years of Service to Valuation Date							Total
	0-4	5-9	10-14	15-19	20-24	25-29	30+	
15-19	1							1
20-24	119							119
25-29	409	90						499
30-34	167	322	516	1				1,006
35-39	122	203	1,977	660	2			2,964
40-44	100	125	802	2,160	871	2		4,060
45-49	93	140	731	1,279	2,268	1,272	4	5,787
50-54	81	140	870	1,328	1,399	4,072	2,443	10,333
55-59	48	88	544	1,193	1,400	1,636	5,423	10,332
60	8	11	35	135	146	149	554	1,038
61	3	5	50	86	119	123	487	873
62	2	7	37	52	87	96	356	637
63	2	10	32	43	54	59	290	490
64		6	21	27	27	51	192	324
65	3	6	10	15	24	22	119	199
66	3	2	2	10	14	8	88	127
67	2	1	3	8	8	6	65	93
68	1	1	1	7	3	4	39	56
69		2	5	5	3	4	32	51
70	2	1	2		2	2	16	25
71	3	3	2		1	2	14	25
72	1		1		1	1	8	12
73		1	1			1	5	8
74	1	1	3	1			8	14
75			1	1			3	5
76	1	1				1	2	5
77								
78				1			4	5
79 & Over		2				2	5	9
Totals	1,172	1,168	5,646	7,012	6,429	7,513	10,157	39,097

Average Age: 50.6 years
Average Service: 22.7 years

**1996 FUND ACTIVE MEMBERS
AS OF JUNE 30, 2005
BY ATTAINED AGE AND YEARS OF SERVICE**

Attained Age	Years of Service to Valuation Date							Total
	0-4	5-9	10-14	15-19	20-24	25-29	30+	
15-19	7							7
20-24	1,673							1,673
25-29	6,325	1,989	1					8,315
30-34	1,927	4,648	619	2				7,196
35-39	1,250	1,953	1,323	202	3			4,731
40-44	1,057	1,201	577	539	130	2		3,506
45-49	899	1,196	573	316	332	113	4	3,433
50-54	605	894	540	341	213	321	152	3,066
55-59	400	507	354	259	147	134	278	2,079
60	37	48	28	17	12	8	34	184
61	39	35	22	15	11	10	23	155
62	31	27	17	12	7	3	11	108
63	33	23	17	8	3	3	8	95
64	25	21	5	1	4	4	7	67
65	16	11	8	5	5	2	4	51
66	18	7	5	2	2		4	38
67	9	6	2	1				18
68	9	5	4	1	1			20
69	14	8	1				2	25
70	12	5			1			18
71	4	3						7
72	4	3			1			8
73	4	4	2					10
74		1						1
75	5	1						6
76	2							2
77	1	2						3
78		1						1
79 & Over		2				1		3
Totals	14,406	12,601	4,098	1,721	872	601	527	34,826

Average Age: 37.5 years
Average Service: 7.2 years

SECTION F

Disclosures Required by
GASB Statements No. 25 and No. 27

GASB STATEMENTS NO. 25 AND NO. 27
REQUIRED SUPPLEMENTARY INFORMATION

Under the Governmental Accounting Standards Board (GASB) Statements No. 25 and No. 27, certain information about the plan is required to be disclosed. The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2005
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization method	Level Percent of Pay Closed
Amortization period	29 Years
Asset valuation method	4-year smoothed market value with corridor
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases*	4.50%-15.50%
*Includes wage inflation at	4.50%
Cost-of-living adjustments	0.5% compounded annually on pension portion

Membership in the plan consisted of the following at June 30, 2005, the date of the latest actuarial valuation:

	<u>Totals</u>
Retired members and beneficiaries receiving benefits	38,512
Terminated plan members entitled to but not yet receiving benefits	
Vested	5,243
Non-Vested	32,059
Active plan members	<u>73,923</u>
Totals	149,737

GASB STATEMENTS NO. 25 AND NO. 27
REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Liability (AAL) -- Entry-Age -- (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b) - (a)] / (c)
1996	\$3,262,619,379	\$ 10,330,788,316	\$ 7,068,168,937	31.6 %	\$ 2,878,329,486	245.6 %
1997*	3,750,138,439	11,044,660,156	7,294,521,717	34.0	2,984,603,913	244.4
1998	4,266,312,063	11,780,174,095	7,513,862,032	36.2	3,094,940,606	242.8
1999	4,970,720,334	12,670,924,443	7,700,204,109	39.2	3,294,326,130	233.7
2000	5,578,046,785	13,115,065,443	7,537,018,658	42.5	3,192,604,492	236.1
2001	5,810,759,564	13,523,825,973	7,713,066,409	43.0	3,318,877,027	232.4
2002*	6,176,574,529	14,664,661,236	8,488,086,707	42.1	3,609,470,436	235.2
2003*	6,554,364,927	14,747,339,056	8,192,974,129	44.4	3,585,134,913	228.5
2004*	6,804,394,627	15,197,925,988	8,393,531,361	44.8	3,651,653,125	229.9
2005*	7,065,299,476	16,264,893,444	9,199,593,968	43.4	3,734,329,113	246.4

* Revised benefits and/or actuarial assumptions and/or methods.

Schedule of Employer Contributions

Fiscal Year Ending	Valuation Date June 30	Annual Required Contribution	Actual Employer Contribution#	Percentage Contributed
1998	1996	\$508,940,065	\$465,350,488	91.4%
1999	1997	508,259,679	612,349,218	120.5
2000	1998	524,815,537	647,441,260	123.4
2001	1999	547,532,673	689,219,756	125.9
2002	2000	537,789,669	566,226,658	105.3
2003	2001	572,226,197	602,231,775	105.2
2004	2002	638,541,074	438,180,343	68.6
2005	2003	619,186,005	484,778,888	78.3
2006	2004	672,555,533	N/A	N/A
2007	2005	742,882,002	N/A	N/A

Actual Employer Contributions prior to the 2004 fiscal year were supplied by ISTRF staff and may differ slightly from the financial statements provided for those valuations.

GASB STATEMENTS NO. 25 AND NO. 27
STATEMENT OF CHANGES IN PLAN NET ASSETS, 2004-2005

Net Assets at Beginning of Year		\$ 6,754,291,554
Additions		
Contributions		
Member Contributions	\$	117,897,343
Employer Contributions		454,778,888
Employer Contributions - Pension Stabilization		30,000,000
Total Contributions	\$	<u>602,676,231</u>
Investments		
Net Appreciation (Depreciation) in Fair Value	\$	371,383,976
Interest Income		134,000,795
Dividend Income		64,303,942
Securities Lending Income		28,592,382
Less Investment Expense		
Investment Fees		(11,964,072)
Securities Lending Fees		<u>(25,427,300)</u>
Net Investment Income	\$	560,889,723
Other Additions		
Transfers From Other Retirement Funds	\$	3,972,803
Annuity and Disability Refunds		855,380
Outdated Benefit Checks		0
Reimbursement of Administrative Expense		8,805
Total Other Additions	\$	<u>4,836,988</u>
Total Additions	\$	1,168,402,942
Deductions		
Annuity and Disability Benefits	\$	723,643,179
Voluntary and Death Withdrawals		9,237,268
Claims on Outdated Benefit Checks		91,219
Administrative Expenses		6,407,378
Capital Projects		593,733
Depreciation Expenses		24,211
Transfers to Other Retirement Funds		2,981,634
Total Deductions	\$	<u>742,978,622</u>
Change in Net Assets Held in Trust for Pension Benefits	\$	<u>425,424,320</u>
Net Assets at End of Year	\$	<u>7,179,715,874</u>

GASB STATEMENTS NO. 25 AND NO. 27
STATEMENT OF PLAN NET ASSETS, JUNE 30, 2005

Assets

Cash and Cash Equivalents	\$ 981,878,070
Securities Lending Collateral	\$1,117,488,043
Receivables	
Employer Contributions	\$ 27,165,049
Due from PERF	0
Member Contributions	30,632,382
Due from Lottery Commission	0
Securities Sold	614,485,957
Investments Interest	30,666,022
	\$ 702,949,410
Investments	
U.S. Treasury and Agency Obligations	\$ 0
Corporate Bonds and Notes	3,153,494,314
Foreign Bonds	0
Equity Securities	3,525,748,217
Foreign Equity Securities	0
Mortgage Securities	0
Venture Capital & Partnerships	0
State & Municipal Securities	0
Debt Securities	0
Indiana Pension Systems, Inc.	500,000
Real Estate	260,000
	\$6,680,002,531
Furniture and Equipment	54,823
Insurance Premium Paid in Advance	27
Total Assets	\$9,482,372,904

Liabilities

Accrued Benefits Payable	\$ 0
Accrued Salaries Payable	89,392
Accrued Liability for Compensated Absences - Current	142,561
Accounts Payable	3,215,376
Due to PERF	495,505
Securities Lending Collateral	1,117,488,043
Payables for Securities Purchased	1,181,104,221
	\$2,302,535,098
Total Current Liabilities	\$2,302,535,098
Accrued Liability for Compensated Absences - Long-Term	121,932
Total Liabilities	\$2,302,657,030
Net Assets Held in Trust for Pension Benefits	\$7,179,715,874

SECTION G



Actuarial **A**ssumptions,
Methods and **D**efinitions

SUMMARY OF ASSUMPTIONS AND METHODS USED FOR ISTRF ACTUARIAL VALUATION

The assumptions used in this valuation reflect the study of experience covering the period July 1, 1996 through June 30, 2002.

The investment return rate used in making the valuations was 7.5% per year, compounded annually (net after administrative expenses). Considering other financial assumptions, the 7.5% investment return rate translates to an assumed real rate of return of 3.0% over across-the-board salary increases and 3.5% over price inflation.

Pay increase assumptions for individual active members are shown based on service on page G-8. Part of the assumption for each age is for a merit and/or seniority increase, 4.0% recognizes price inflation and 0.5% recognizes real wage growth.

Total active member payroll is assumed to increase 4.5% annually, which is the portion of the individual pay increase assumptions attributable to inflation and other factors.

Price inflation, although not directly tied to benefits, was assumed to be 4.0% and is a component of the economic model used to determine the total wage inflation.

The total number of active members is assumed to continue at the present number.

The mortality table, for post-retirement mortality and pre-retirement mortality, used in valuing allowances to be paid was the 1983 Group Annuity Mortality Male Table set back 5 years for men and 7 years for women. Related values are shown on pages H-3 and H-4. Disabled post-retirement mortality used was the 1983 Group Annuity Male Mortality Table, set forward 5 years for men and 3 years for women.

Probabilities of retirement are shown on page G-5.

The probabilities of withdrawal are shown for sample ages on page G-6.

The probabilities of disability are shown for sample ages on page G-7.

The entry age normal actuarial cost method of valuation was used in determining age and service allowance liability and normal cost, and vesting liability and normal cost.

Differences in the past between assumed experience and actual experience (“actuarial gains and losses”) become part of unfunded actuarial accrued liability.

Unfunded actuarial accrued liability is amortized to produce payments (principal and interest) which are level percent-of-payroll contributions.

Employer contribution dollars were assumed to be *paid in equal installments* throughout the employer fiscal year.

Present assets (cash and investments) were valued using the funding value.

The data about persons now covered and about present assets were furnished by the Fund’s Administrative Staff. Although examined for general reasonableness, the data was not otherwise audited by the Actuary.

The actuarial valuation computations were made under the supervision of a Member of the American Academy of Actuaries (MAAA).

SINGLE LIFE RETIREMENT VALUES

Sample Attained Ages	Present Value of \$1 Monthly for Life		Future Life Expectancy (years)	
	Males	Females	Males	Females
45	\$158.38	\$160.46	38.46	40.38
50	152.16	154.83	33.74	35.62
55	144.49	147.73	29.18	30.98
60	135.22	139.15	24.82	26.55
65	123.83	128.68	20.64	22.29
70	110.16	115.85	16.69	18.23
75	95.34	101.32	13.18	14.52
80	80.03	86.22	10.15	11.31
Ref:	#166sb3x1	#167sb0x1		

Sample Attained Ages	Portion of Age 55 Members Still Alive	
	Males	Females
55	100.00 %	100.00 %
60	97.64	98.05
65	94.17	95.07
70	88.96	90.74
75	80.41	83.77
80	67.75	72.81
85	50.97	57.78

POST-RETIREMENT MORTALITY

Age	Regular		Disabled		Age	Regular		Disabled	
	Male	Female	Male	Female		Male	Female	Male	Female
21	0.00033	0.00032	0.00049	0.00044	61	0.00662	0.00566	0.01758	0.01387
22	0.00034	0.00033	0.00051	0.00046	62	0.00714	0.00613	0.01980	0.01559
23	0.00035	0.00033	0.00054	0.00049	63	0.00772	0.00662	0.02223	0.01758
24	0.00037	0.00034	0.00057	0.00051	64	0.00838	0.00714	0.02482	0.01980
25	0.00038	0.00035	0.00061	0.00054	65	0.00916	0.00772	0.02753	0.02223
26	0.00039	0.00037	0.00065	0.00057	66	0.01006	0.00838	0.03035	0.02482
27	0.00041	0.00038	0.00069	0.00061	67	0.01113	0.00916	0.03337	0.02753
28	0.00042	0.00039	0.00073	0.00065	68	0.01239	0.01006	0.03668	0.03035
29	0.00044	0.00041	0.00078	0.00069	69	0.01387	0.01113	0.04039	0.03337
30	0.00046	0.00042	0.00086	0.00073	70	0.01559	0.01239	0.04460	0.03668
31	0.00049	0.00044	0.00091	0.00078	71	0.01758	0.01387	0.04939	0.04039
32	0.00051	0.00046	0.00097	0.00086	72	0.01980	0.01559	0.05476	0.04460
33	0.00054	0.00049	0.00104	0.00091	73	0.02223	0.01758	0.06068	0.04939
34	0.00057	0.00051	0.00113	0.00097	74	0.02482	0.01980	0.06713	0.05476
35	0.00061	0.00054	0.00124	0.00104	75	0.02753	0.02223	0.07407	0.06068
36	0.00065	0.00057	0.00137	0.00113	76	0.03035	0.02482	0.08148	0.06713
37	0.00069	0.00061	0.00153	0.00124	77	0.03337	0.02753	0.08932	0.07407
38	0.00073	0.00065	0.00172	0.00137	78	0.03668	0.03035	0.09753	0.08148
39	0.00078	0.00069	0.00193	0.00153	79	0.04039	0.03337	0.10605	0.08932
40	0.00086	0.00073	0.00218	0.00172	80	0.04460	0.03668	0.11484	0.09753
41	0.00091	0.00078	0.00247	0.00193	81	0.04939	0.04039	0.12417	0.10605
42	0.00097	0.00086	0.00279	0.00218	82	0.05476	0.04460	0.13387	0.11484
43	0.00104	0.00091	0.00314	0.00247	83	0.06068	0.04939	0.14407	0.12417
44	0.00113	0.00097	0.00351	0.00279	84	0.06713	0.05476	0.15486	0.13387
45	0.00124	0.00104	0.00391	0.00314	85	0.07407	0.06068	0.16631	0.14407
46	0.00137	0.00113	0.00432	0.00351	86	0.08148	0.06713	0.17821	0.15486
47	0.00153	0.00124	0.00476	0.00391	87	0.08932	0.07407	0.19046	0.16631
48	0.00172	0.00137	0.00520	0.00432	88	0.09753	0.08148	0.20301	0.17821
49	0.00193	0.00153	0.00566	0.00476	89	0.10605	0.08932	0.21790	0.19046
50	0.00218	0.00172	0.00613	0.00520	90	0.11484	0.09753	0.23409	0.20301
51	0.00247	0.00193	0.00662	0.00566	91	0.12417	0.10605	0.24844	0.21790
52	0.00279	0.00218	0.00714	0.00613	92	0.13387	0.11484	0.26395	0.23409
53	0.00314	0.00247	0.00772	0.00662	93	0.14407	0.12417	0.28080	0.24844
54	0.00351	0.00279	0.00838	0.00714	94	0.15486	0.13387	0.29915	0.26395
55	0.00391	0.00314	0.00916	0.00772	95	0.16631	0.14407	0.31918	0.28080
56	0.00432	0.00351	0.01006	0.00838	96	0.17821	0.15486	0.34109	0.29915
57	0.00476	0.00391	0.01113	0.00916	97	0.19046	0.16631	0.36505	0.31918
58	0.00520	0.00432	0.01239	0.01006	98	0.20301	0.17821	0.39310	0.34109
59	0.00566	0.00476	0.01387	0.01113	99	0.21790	0.19046	0.42726	0.36505
60	0.00613	0.00520	0.01559	0.01239	100	0.23409	0.20301	0.46953	0.39310
Ref	#166sb3x1	#167sb0x1	#166sb-7x1	#167sb-10x1		#166sb3x1	#167sb0x1	#166sb-7x1	#167sb-10x1

**PROBABILITIES OF AGE AND SERVICE RETIREMENT
FOR MEMBERS ELIGIBLE TO RETIRE**

Regular Retirement			Rule of 85 Retirement			Early Retirement		
Age	Male	Female	Age	Male	Female	Age	Male	Female
						50	0.0100	0.0100
						51	0.0100	0.0100
						52	0.0100	0.0100
						53	0.0100	0.0100
						54	0.0200	0.0200
			55	0.1100	0.1100	55	0.0300	0.0300
			56	0.1000	0.1100	56	0.0300	0.0350
			57	0.1000	0.1200	57	0.0350	0.0400
			58	0.1200	0.1200	58	0.0400	0.0500
			59	0.1500	0.1600	59	0.0300	0.0600
60	0.1500	0.1500	60	0.1500	0.1500			
61	0.1500	0.1500	61	0.1500	0.1500			
62	0.2500	0.2000	62	0.2500	0.2000			
63	0.2000	0.2000	63	0.2000	0.2000			
64	0.2000	0.2000	64	0.2000	0.2000			
65	0.3500	0.3500	65	0.3500	0.3500			
66	0.2500	0.2500	66	0.2500	0.2500			
67	0.2000	0.2500	67	0.2000	0.2500			
68	0.2000	0.3000	68	0.2000	0.3000			
69	0.2000	0.3000	69	0.2000	0.3000			
70	1.0000	1.0000	70	1.0000	1.0000			
Ref	485	732		486	734		435	481

**WITHDRAWAL RATES
PRIOR TO ELIGIBILITY FOR RETIREMENT**

Years of Service	Service Based	
	Male	Female
0-1	0.3000	0.3500
1-2	0.1700	0.1800
2-3	0.1100	0.1400
3-4	0.0900	0.1100
4-5	0.0700	0.1000
5-6	0.0600	0.0800
6-7	0.0500	0.0650
7-8	0.0450	0.0600
8-9	0.0400	0.0550
9-10	0.0400	0.0500
Ref	293	294

Attained Age	Age Based	
	Male	Female
25	0.0664	0.0950
26	0.0664	0.0950
27	0.0648	0.0950
28	0.0576	0.0880
29	0.0504	0.0800
30	0.0432	0.0720
31	0.0368	0.0650
32	0.0304	0.0580
33	0.0288	0.0520
34	0.0256	0.0480
35	0.0232	0.0430
36	0.0208	0.0380
37	0.0184	0.0340
38	0.0168	0.0310
39	0.0152	0.0290
40	0.0144	0.0260
41	0.0136	0.0240
42	0.0128	0.0220
43	0.0128	0.0210
44	0.0128	0.0200
45	0.0120	0.0200
46	0.0120	0.0200
47	0.0120	0.0200
48	0.0120	0.0200
49	0.0120	0.0200
50	0.0120	0.0200
51	0.0112	0.0200
52	0.0112	0.0200
53	0.0112	0.0200
54	0.0112	0.0190
55	0.0104	0.0180
56	0.0104	0.0160
57	0.0096	0.0140
58	0.0096	0.0140
59	0.0096	0.0140
60	0.0096	0.0140
Ref	#202 x 0.8	#203 x 1

**DISABILITY RATES
PRIOR TO ELIGIBILITY FOR RETIREMENT**

Attained Age	Age Based	
	Male	Female
20	0.0001	0.0001
21	0.0001	0.0001
22	0.0001	0.0001
23	0.0001	0.0001
24	0.0001	0.0001
25	0.0001	0.0001
26	0.0001	0.0001
27	0.0001	0.0001
28	0.0001	0.0001
29	0.0001	0.0001
30	0.0001	0.0001
31	0.0001	0.0001
32	0.0001	0.0001
33	0.0001	0.0001
34	0.0001	0.0001
35	0.0001	0.0001
36	0.0001	0.0001
37	0.0001	0.0001
38	0.0001	0.0001
39	0.0001	0.0001
40	0.0001	0.0001
41	0.0002	0.0002
42	0.0002	0.0002
43	0.0002	0.0002
44	0.0002	0.0002
45	0.0002	0.0002
46	0.0003	0.0003
47	0.0003	0.0003
48	0.0004	0.0004
49	0.0004	0.0004
50	0.0005	0.0005
51	0.0006	0.0006
52	0.0007	0.0007
53	0.0008	0.0008
54	0.0008	0.0008
55	0.0009	0.0009
56	0.0009	0.0009
57	0.0010	0.0010
58	0.0010	0.0010
59	0.0010	0.0010
60	0.0010	0.0010
Ref	#135 x 0.1	#135 x 0.1

PAY INCREASE ASSUMPTIONS FOR AN INDIVIDUAL MEMBER

Years of Service	Salary Increase Assumptions for an Individual Member		
	Merit & Seniority	Base (Economic)	Increase Next Year
1	11.00%	4.50%	15.50%
2	7.50%	4.50%	12.00%
3	5.50%	4.50%	10.00%
4	5.50%	4.50%	10.00%
5	5.00%	4.50%	9.50%
6	4.50%	4.50%	9.00%
7	4.50%	4.50%	9.00%
8	4.00%	4.50%	8.50%
9	4.00%	4.50%	8.50%
10	3.50%	4.50%	8.00%
11	3.00%	4.50%	7.50%
12	3.00%	4.50%	7.50%
13	2.50%	4.50%	7.00%
14	2.50%	4.50%	7.00%
15	2.50%	4.50%	7.00%
16	2.50%	4.50%	7.00%
17	2.50%	4.50%	7.00%
18	2.50%	4.50%	7.00%
19	2.00%	4.50%	6.50%
20	1.50%	4.50%	6.00%
21	1.00%	4.50%	5.50%
22	0.75%	4.50%	5.25%
23	0.50%	4.50%	5.00%
24	0.25%	4.50%	4.75%
25	0.25%	4.50%	4.75%
26	0.25%	4.50%	4.75%
27	0.25%	4.50%	4.75%
28	0.25%	4.50%	4.75%
29	0.25%	4.50%	4.75%
30	0.25%	4.50%	4.75%
31	0.25%	4.50%	4.75%
32	0.25%	4.50%	4.75%
33	0.25%	4.50%	4.75%
34	0.25%	4.50%	4.75%
35	0.25%	4.50%	4.75%
36	0.25%	4.50%	4.75%
37	0.25%	4.50%	4.75%
38	0.25%	4.50%	4.75%
39	0.25%	4.50%	4.75%
40	0.25%	4.50%	4.75%
Ref.	64		

MISCELLANEOUS AND TECHNICAL ASSUMPTIONS

Marriage Assumption:	100% of members are assumed to be married for purposes of valuing death-in-service benefits. Males spouses are assumed to be three years older than female spouses.
Pay Increase Timing:	Beginning of (fiscal) year. Payroll amounts stated in the valuation data are amounts actually paid during the prior year.
Decrement Timing:	Retirement decrements are assumed to occur at the beginning of the year, other decrements are assumed to occur mid-year.
Eligibility Testing:	Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.
Benefit Service:	Exact fractional service is used to determine the amount of benefit payable.
Decrement Relativity:	Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.
Other:	Disability and withdrawal decrements do not operate after member reaches retirement eligibility. Only the withdrawal decrement operates during the first 10 years of service.
Miscellaneous Adjustments:	The calculated normal, early retirement and vested deferred liabilities and normal costs were increased by 1% to account for the inclusion of unused sick leave in the calculation of Average Compensation.
Actuarial Equivalence Basis for Optional Forms of Payment:	7.5% interest with a 40%/60% unisex blend of the 1983 Group Annuity Mortality table set back 3 years and the 1983 Group Annuity Mortality Table set back 7 years.
COLA Assumption:	0.5% compounded annually on pension portion.

DEFINITIONS OF TECHNICAL TERMS

ACCRUED SERVICE. Service credited under the system which was rendered before the date of the actuarial valuation.

ACTUARIAL ACCRUED LIABILITY. The difference between the actuarial present value of future benefit payments and the actuarial present value of future normal costs. Also referred to as “accrued liability” or “past service liability.”

ACTUARIAL ASSUMPTIONS. Estimates of expected future experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment return and pay increases. Decrement assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (pay increases and investment return) consist of the underlying rates in an inflation-free environment plus a provision for a long-term average rate of inflation.

ACTUARIAL COST METHOD. A mathematical budgeting procedure for allocating the dollar amount of the “actuarial present value of future benefit payments” between future normal costs and actuarial accrued liabilities. Sometimes referred to as the “actuarial funding method.”

ACTUARIAL EQUIVALENT. One series of payments is said to be actuarially equivalent to another series of payments if the two series have the same actuarial present value.

ACTUARIAL GAIN (LOSS). The difference between actual unfunded actuarial accrued liability and anticipated unfunded actuarial accrued liability -- during the period between two valuation dates. It is a measurement of the difference between actual and expected experience.

ACTUARIAL PRESENT VALUE. The single amount now which is equal to a payment or series of payments in the future. It is determined by discounting future payments at predetermined rates of interest, and by probabilities of payment.

DEFINITIONS OF TECHNICAL TERMS (CONTINUED)

AMORTIZATION. Paying off a present value with periodic payments.

NORMAL COST. The portion of the actuarial present value of future benefits that is assigned to the current year by the actuarial cost method. Sometimes referred to as “current cost.”

UNFUNDED ACTUARIAL ACCRUED LIABILITY. The difference between the actuarial accrued liabilities and the actuarial value of assets. Sometimes referred to as “unfunded past service liability,” or “unfunded accrued liability” or simply as “unfunded liability.”

SECTION H



Financial Principles

FUNDING OBJECTIVE

The funding objective of the ISTRF 1996 Fund is to establish and receive contributions which, when invested at the assumed rate of return, will ultimately accumulate assets over each member's working lifetime that will be sufficient to pay expected retirement allowances.

Plan Structures and Funding Arrangements

The Indiana State Teachers' Retirement Fund (ISTRF) is comprised of a two-plan structure in compliance with Indiana Code Section 21-6.1-2-2:

- The **Pre-1996 Fund** consists of those members who were hired prior to July 1, 1995, and who have maintained continuous employment with the same school corporation or covered institution since that date.
- The **1996 Fund** consists of those members who were:
 - (a) hired on or after July 1, 1995, or
 - (b) hired before July 1, 1995, served in a position covered by ISTRF, and, subsequent to June 30, 1995, were either hired by another school corporation or institution covered by ISTRF, or were rehired by a covered prior employer.

Characteristics of the Pre-1996 Fund:

1. Active membership in the Pre-1996 Fund continues to decline as members quit, become disabled, die, retire, or incur a change in status as described in (b) above, thereby automatically transferring to membership in the 1996 Fund.
2. The pension benefits from the Pre-1996 Fund are funded by State appropriations (including short-term contributions of some revenue from the State Lottery). Annuity benefits payable from the Pre-1996 Fund are funded by the annuitization of Pre-1996 Fund member contributions at the time of retirement.

Characteristics of the 1996 Fund:

1. As members depart from active service in the Pre-1996 Fund, their replacements will become members of the 1996 Fund. If the 1996 Fund were a stand-alone plan, this pattern of departures and hirings would produce a fairly constant population size. However, overall active membership in the 1996 Fund is expected to increase over time due to the following factors:
 - (a) As Pre-1996 Fund members depart from active service, their replacements will become members of the 1996 Fund; and
 - (b) The special provisions of Indiana Code Section 21-6.1-2-2 require that any member who changes jobs within the System or who is rehired within the System after a period of absence automatically becomes a 1996 Fund member.
2. The result of an expanding membership in the New Plan is growth in the 1996 Fund payroll. The expanding 1996 Fund population and payroll present challenges to level percent-of-payroll funding.
3. Pension benefits payable from the 1996 Fund are funded by contributions from local school corporations or other institutions that employ covered members. Annuity benefits payable at retirement from the 1996 Fund are funded by 1996 Fund members.

PLAN STRUCTURES AND FUNDING ARRANGEMENTS (CONTINUED)

Funding Arrangements

Prior to the legislation that established the two-plan structure in ISTRF, the pension benefits of the Indiana State Teachers' Retirement System were funded on a pay-as-you go system. Under this arrangement, amounts were appropriated to meet the current year's pension payment requirements. Pension benefits payable from the Pre-1996 Fund continue to be funded on this basis. In 1995, the Pension Stabilization Fund was set up for the Pre-1996 Fund.

Since then, some pre-funding progress has been made via State appropriations to this Fund. Pension benefits payable from the 1996 Fund are funded through percent-of-pay contributions. The Teachers' Retirement Board sets this contribution rate after reviewing the most recent actuarial valuation report. The current contribution rate of 7.0% was set by the Board in 2005.

Most public employee retirement systems choose or are required by state law to pre-fund their plans. One of the advantages to pre-funding is that a pool of assets is created and built up to a point that investment income on those assets becomes a major contributor to the fund. Under the pay-as-you-go funding method, the contribution rate starts off much lower, but continues to grow over generations of taxpayers, to a point much higher than under the pre-funding method. Essentially, by not pre-funding a plan, future taxpayers will have to pay more and inter-generational equity between generations of taxpayers will be compromised.

THE ACTUARIAL VALUATION PROCESS

The actuarial valuation is the mathematical process by which a contribution rate is determined. The flow of activity constituting the valuation may be summarized as follows:

- A. **Covered Person Data**, furnished by the plan administrator
 - Retired members and beneficiaries now receiving benefits
 - Former employees with vested benefits not yet payable
 - Active employees

- B. + **Asset data (cash and investments)**, furnished by the plan administrator

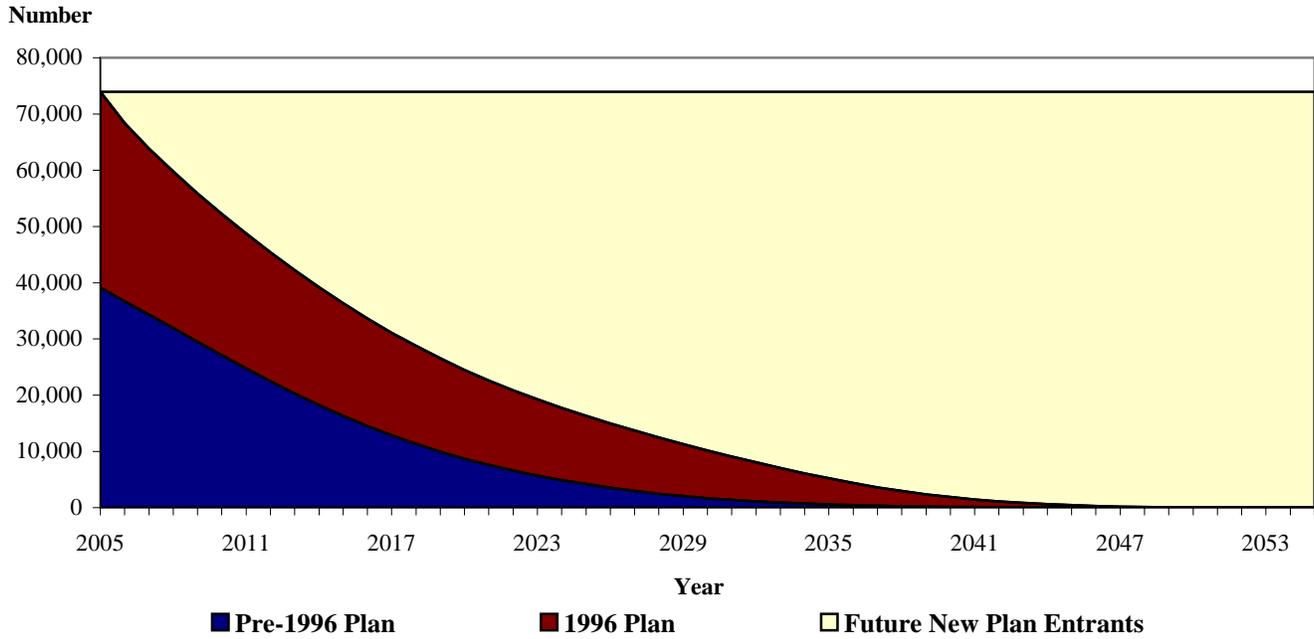
- C. + **Estimates of future experience (actuarial assumptions)**, which are established by the Board of Trustees after consulting with the actuary

- D. + **Funding method** for employer contributions (the long-term planned pattern for employer contributions)

- E. + **Mathematically combining the assumptions, the funding method, and the data**

- F. = Determination of:
 - Plan financial position*
 - and/or *New Employer Contribution Rate*

CLOSED POPULATION PROJECTION



The projection depicted above indicates that by 2016, only half of the current active population will remain.